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C O N F I D E N T I A L SECTION 01 OF 03 AMMAN 008107

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TREASURY FOR OASIA - LARRY MCDONALD

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TAGS: PREL ECON EFIN EAID IZ JO  
SUBJECT: JORDANIAN REQUEST FOR IRAQ-RELATED AID

REF: AMMAN 07841

Classified By: CHARGE D'AFFAIRES, A.I. DAVID HALE, REASONS 1.4 (B,D).

¶11. (C) SUMMARY: The GOJ has launched a two-track push for increased aid for Jordan, which would also benefit Iraq. One track proposes debt forgiveness for Jordan. Jordan would then apply some of the savings from the debt forgiveness against the debt it is owed by Iraq, thereby reducing Iraq's debt burden as well. The second track requests approximately \$1 billion in assistance to Jordan for Iraq-related infrastructure improvements. As a first step on the second track, Jordan seeks Iraqi government approval; the Iraqi Ambassador agrees that Jordanian officials received promising signals from Iraqi counterparts, but the financing piece remains a major hurdle. It will be a challenge, to say the least, for the GOJ to win the donor, creditor, and IIG support it needs; but Either approach, if successful, would have direct and indirect benefits for Iraqi reconstruction. Post believes donors should seriously consider this creative approach. END SUMMARY.

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THE VISION  
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¶12. (C) As reftel reported, Jordan is launching a two-prong effort to increase assistance which has direct or indirect links to support for Iraq. Jordan's Planning Minister Bassem Awadallah began the campaign by calling in Paris Club Ambassadors. Foreign Minister Muashar and King Abdullah himself will also raise the strategy with their counterparts among Paris Club and donor countries over the coming months. In this context, Jordan has also offered to host the second International Reconstruction Fund Facility for Iraq (IRFFI) meeting early next year. The King and all key ministers have advocated these plans with a range of foreign visitors in the past month. The proposal comes in the context of Jordan's unstinting strategic and practical support for U.S. policy aims in Jordan, an eagerness to reweave Jordan's own historic ties with Iraq, including in the commercial field, and the economic self-interest of a still aid-dependent country that has exposed itself politically time and again in the pursuit of our common regional goals and seeks to improve the state's economic foundation as a defense against extremists.

¶13. (C) In detail, the two proposals are as follows: Jordan seeks some level of debt forgiveness by the Paris Club. In turn, Jordan would then forgive a part of the \$1.3 billion owed Jordan by Iraq under the previous trade protocol between the two countries. By way of background, Nearly 42% of Jordan's external debt is denominated in euros or yen, and the strengthening of both currencies has hurt Jordan.

¶14. (C) Under the second proposal, Jordan has identified approximately \$1 billion in "Iraq-related" Jordanian infrastructure assistance needs, including \$150 million to upgrade the Aqaba container port, \$705 million to upgrade the road system connecting Aqaba to Iraq, and \$140 million for border-crossing infrastructure. The Iraqi Ambassador in Amman told us that -- true to Jordanian claims -- Iraqi officials are reviewing the proposal favorably, but aspects of the proposed financing are clearly problematic. The GOJ proposes using swap-outs of some of its bilateral debts, for example with the Japanese, new donor funds, and DFI money to finance these projects. The Japanese government is said here to be looking favorably at a debt swap.

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THE REALITY  
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¶15. (C) Despite the obvious self-serving aspects of these proposals, there is no doubt that assistance in these areas would help our effort in Iraq. Jordan is currently under some pressure from its external auditor to write off the \$1.3 billion debt Iraq owes the Central Bank under the now-defunct trade protocol with Iraq which ran for nearly 20 years. Jordanian officials make the point that they can hardly take foreign assistance with one hand while writing off debt with

the other without consulting donors. Should the Central Bank be forced to write off that debt, the Finance Ministry would need to recapitalize the bank and Jordan's debt picture, which is already serious, would become critical. (Note: Jordan's total external debt is \$7.5 billion in a total economy of just under \$10 billion. End Note.) Under the new proposal, Jordan would receive debt forgiveness for an unspecified portion of its external debt, with the understanding that it would apply some of that gain to forgive Iraqi debt owed Jordan.

16. (C) Looking at the infrastructure aid request, Aqaba continues to serve as the largest port of entry for Iraq, both for commercial goods and for fuel and materiel for U.S. troops operating in Iraq. Aqaba's port facilities are over-taxed, and the new commercial operator of the port expects that it will take up to two years to convert Aqaba into a modern container port. With the space constraints on Iraq's Umm Qasr port, and the inability to re-open Basra for some years hence, Aqaba will continue to be vital for Iraq's economy and reconstruction efforts. Similarly, the road network connecting Aqaba and Iraq is severely stressed and in need of refurbishment and/or expansion, tasks which Jordan would find very difficult to finance on its own. Finally, an improved border crossing facility at Karama/Treibil, on Jordan's border with Iraq's Al-Anbar province, would both speed the clearance of the goods in transit, make the trade more secure, and eliminate the humanitarian problem caused by immense delays in moving people through a remote, inadequate desert post.

17. (C) Without question, the proposals will also directly benefit Jordan. Reducing Jordan's debt overhang is the chief worry of Jordan's Finance Minister, a concern driven by a Jordanian law which requires substantial further reductions in debt levels by the end of 2006. The problem is exacerbated by doubt over how to handle the \$1.3 billion debt owed by Iraq. Jordan has launched talks with Iraq to develop an oil-for-debt write-off over a period of years, but there has been little progress to date.

18. (C) On the infrastructure side, the improvements envisioned would also greatly benefit economic development in Jordan, particularly in the area of rural development. Rural development remains a particular concern for the government due to high levels of poverty in those areas, fears that they may serve as breeding grounds for extremism, or, at a minimum, as sources of resentment on the part of Jordanians who feel left out of the prosperity evident in large swathes of the capital. The projects proposed, particularly the roadworks, would provide employment for low-skilled workers during the construction phase and longer-term benefits for the country as a whole in terms of newer, more modern infrastructure.

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COMMENT  
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19. The self-serving nature of this Jordanian initiative is obvious. Jordanian access to DFI funds -- even for projects which indirectly support Iraqi reconstruction -- is unlikely to win much favor, starting with the IIG. However, the Jordanians have begun in the right way, by consulting Iraqi partners. Should these ideas be identified by the IIG as priority needs, they would be worth our serious study. Even DFI funding for a joint border post -- critical for enhanced security and faster processing of goods and people -- may not be too far fetched. The fact that the projects would also help Jordan and further enhance its reputation as a model of economic reform in the region would be significant added benefits. Strengthening economic ties between Iraq and Jordan through infrastructure links and financial agreements may serve to reduce the economic leverage other neighbors such as Iran and Syria might develop over Iraq, and help anchor the budding, moderate alliance between Amman and Baghdad. The King, Foreign Minister, Finance Minister, Planning Minister and others have made a point of raising these proposals with nearly every U.S. visitor, and they will feature in the upcoming visits by the Planning and Finance Ministers. For now, post recommends that we listen to the proposal, encourage an understanding with the Iraqis, and express readiness to explore any reasonable joint plans which enhance Jordan's role in facilitating Iraqi redevelopment.

110. (U) Baghdad minimize considered.  
HALE